

Consolidated Financial Statements
for the First Half of the Fiscal Year Ending December 31, 2020
<under IFRS>

August 7, 2020

These financial statements, prepared in accordance with International Financial Reporting Standards (IFRS), have been translated for reference only from the original Japanese-language document "KESSAN TANSIN." The entire format is pursuant to the requirements or guidance of Tokyo Stock Exchange. As for the contents, if there are any differences or discrepancies between the original Japanese-language and the English translation, the original Japanese-language supersedes this English translation.

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 Scheduled date of quarterly securities report submission: August 7, 2020
 Scheduled date of dividend payment commencement: September 1, 2020
 Supplementary information for the quarterly financial statements to be prepared: Yes
 Meeting to explain the quarterly financial statements to be held: Yes

(All amounts are rounded off the nearest million yen)

1. Consolidated Results for the First Half of Fiscal 2020 (January 1, 2020 - June 30, 2020)

(1) Consolidated Operating Results (Percentage figures represent changes from the same period of previous year)

	Revenue		Adjusted operating profit*		Operating profit		Profit attributable to owners of parent		Comprehensive income	
	Yen in millions	%	Yen in millions	%	Yen in millions	%	Yen in millions	%	Yen in millions	%
Six months ended June 30, 2020	1,355,470	(22.1)	48,266	(68.3)	19,762	(86.7)	(22,044)	—	(112,269)	—
Six months ended June 30, 2019	1,739,926	—	152,124	—	148,451	—	98,703	—	66,662	—

* The Group utilizes "adjusted operating profit" in place of the previously employed J-GAAP-based operating income. For details on reconciliations, please refer to page 12, "Reconciliation from adjusted operating profit to profit before tax" under "2. Condensed Quarterly Consolidated Financial Statements and Primary Notes (6) Notes to the Condensed Quarterly Consolidated Financial Statements."

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended June 30, 2020	(31.31)	(31.31)
Six months ended June 30, 2019	134.03	133.81

(2) Consolidated Financial Position

	Total assets	Total equity	Total equity attributable to owners of parent	Ratio of equity attributable to owners of parent to total assets
	Yen in millions	Yen in millions	Yen in millions	%
As of June 30, 2020	4,146,955	2,229,450	2,183,395	52.7
As of December 31, 2019	4,277,016	2,402,477	2,349,378	54.9

2. Dividends

	Dividend per share				
	1st quarter end	2nd quarter end	3rd quarter end	Year -end	Total
Fiscal 2019	— Yen	80.00 Yen	— Yen	80.00 Yen	160.00 Yen
Fiscal 2020	—	50.00			
Fiscal 2020 (Projection)			—	To be determined	To be determined

(Note) Changes from the latest forecasts released: Yes

3. Consolidated Financial Results Forecasts for Fiscal 2020 (January 1, 2020 - December 31, 2020)

(Percentage figures represent changes from the same period of previous year)

	Revenue		Adjusted operating profit		Profit attributable to owners of parent		Basic earnings per share
	Yen in millions	%	Yen in millions	%	Yen in millions	%	Yen
Fiscal 2020	2,700,000	(23.0)	100,000	(70.2)	To be determined	—	To be determined

- (Notes)
1. Changes from the latest forecasts released: Yes
 2. The financial results forecasts stated above are formulated with the possibility of a “second wave” of the spread of the novel coronavirus disease (COVID-19) in Japan and major countries overseas, and the assumption of the impact of a decrease in demand in the fourth quarter.
 3. The consolidated financial result forecast for profit attributable to owners of parent has not been determined because it is difficult to reasonably calculate the result at this time due to the effect of the spread of COVID-19. When it does become possible to perform a reasonable calculation, the financial result forecast for profit attributable to owners of parent will be promptly announced.

*** Notes**

(1) Changes in principal subsidiaries during the six months ended June 30, 2020: No
(Changes in specified subsidiaries involving change in consolidation scope)

(2) Changes in accounting policies and changes in accounting estimates

- | | |
|--|------|
| 1) Changes in accounting policies required by IFRS | : No |
| 2) Changes in accounting policies other than 1) | : No |
| 3) Changes in accounting estimates | : No |

(3) Number of issued shares (common stock)

1) Total number of issued shares at period end (including treasury stock):

June 30, 2020	713,698,221 shares
December 31, 2019	761,536,421 shares

2) Number of shares of treasury stock at period end

June 30, 2020	9,583,088 shares
December 31, 2019	57,481,254 shares

3) Average number of shares outstanding during the period (during the first half)

First Half ended June 30, 2020	704,093,432 shares
First Half ended June 30, 2019	736,400,589 shares

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Statement regarding appropriate use of forward-looking statements and other notes

Forecasts based on our projections and plans for the future in this document contain unpredictable elements that may cause fluctuations. As such, they do not constitute guarantees by the Company of the achievement of those forecasts. Accordingly, actual business results may differ substantially from the Company's current assessment.

Adoption of International Financial Reporting Standards (IFRS)

The Company has adopted International Financial Reporting Standards (IFRS) from the first quarter of the fiscal year ending December 31, 2020. Presentation of figures in the consolidated financial statements for the period of the previous year also conforms to IFRS.

For differences between IFRS and J-GAAP in the financial statements, please refer to page 16, "First-time adoption of IFRS" under "2. Condensed Quarterly Consolidated Financial Statements and Primary Notes (6) Notes to the Condensed Quarterly Consolidated Financial Statements."

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1. Qualitative Information on Consolidated Financial Results for the Six Months

(1) Explanation regarding information on consolidated financial results forecasts and other forward-looking statements

[Revision of consolidated financial results forecasts for the fiscal year ending December 31, 2020]

1) Consolidated financial results forecasts (from January 1, 2020 to December 31, 2020)

	Revenue	Adjusted operating profit	Profit attributable to owners of parent	Basic earnings per share
Previous forecasts (A)	Yen in millions To be determined	Yen in millions To be determined	Yen in millions To be determined	Yen To be determined
Revised forecasts (B)	2,700,000	100,000	To be determined	To be determined
Differences (A-B)	—	—	—	—
Change (%)	—	—	—	—
(Reference) FY2019 results	3,507,243	335,702	240,111	332.31

2) Reason for disclosure

Until now, the consolidated financial results forecasts for fiscal 2020 have been undetermined, taking into consideration the uncertainties regarding the spread of COVID-19 across in each region.

However, the Company has now calculated the financial results forecasts based on the information that is currently available and discloses them as shown above.

As for profit attributable to owners of parent, the financial result forecast has not been determined because it is difficult to reasonably calculate the result in light of the effect of COVID-19. When it does become possible to perform a reasonable calculation, the financial result forecast for profit attributable to owners of parent will be promptly announced.

3) Assumptions in the financial results forecasts

In the first two quarters of fiscal 2020, tire demand for both new vehicles and replacement significantly declined due to the global stagnation of economic activity arising from the respective issuances of states of emergency by the respective countries. Even though signs of recovery have been apparent since June, the market environment continues to be unpredictable.

With regard to the last two quarters, the Company has formulated the financial results forecasts with the assumption of the impact of a decrease in demand due to a second wave of COVID-19 infection in the fourth quarter, despite the current expectation of a gradual recovery. The impact of a decrease in demand due to a second wave is expected to be on a smaller scale when compared with the first wave that occurred during the second quarter.

[Determination of dividends of surplus and revisions to the dividends forecast]

1) Dividends of surplus (cash dividends)

	Determined amount	Latest dividends forecast (announced on May 11, 2020)	FY2019 Interim dividend result
Record date	June 30, 2020	June 30, 2020	June 30, 2019
Cash dividends per share	50 yen	80 yen	80 yen
Total dividends	35,206 million yen	—	57,556 million yen
Effective date	September 1, 2020	—	September 2, 2019
Source of dividend	Retained earnings	—	Retained earnings

2) Reason for the determination of dividends

The Company's basic policies on profit distribution and dividends are as follows.

- Policy on profit distribution – the Company conducts shareholder returns while maintaining an appropriate financial position and securing the internal reserves necessary for future growth investments.
- Policy on dividends – the Company comprehensively evaluates factors including business results, financial condition for the relevant fiscal period, medium-term earnings forecasts, investment plans, and cash flows. Based on these considerations, the Company issues stable dividend payments targeting a consolidated payout ratio of 20%-40%.

During these current harsh business circumstances caused by the effect of the spread of COVID-19, the Company determined the dividend amount based on the above basic policies while keeping the following concepts.

- Growth investments: Exercise restraint to limit cash outflow during the current fiscal year while securing priority investments required for business strategies.
- Financial position: Carefully watch for the risk of a second wave of COVID-19 and continue to maintain a robust cash position.
- Shareholder returns: While giving consideration to growth investments and financial position, determine dividend amounts that are in line with the "stable shareholder returns" in the medium to long term.

3) Revisions to the forecasts of cash dividends

As it is not possible to provide financial results forecasts for fiscal 2020, the Company has left the forecast of the year-end dividend undetermined.

	Cash dividends per share (yen)		
	2nd quarter end	Year-end	Total
Previous forecasts	80 yen	80 yen	160 yen
Revised forecasts	50 yen	To be determined	To be determined
FY2019 results	80 yen	80 yen	160 yen

2. Condensed Quarterly Consolidated Financial Statements and Primary Notes

(1) Condensed Quarterly Consolidated Statement of Financial Position

	IFRS transition date (January 1, 2019)	As of December 31, 2019	As of June 30, 2020
	Millions of yen	Millions of yen	Millions of yen
Assets			
Current assets			
Cash and cash equivalents	433,916	432,924	628,694
Trade and other receivables	781,916	755,344	605,717
Inventories	645,924	630,162	594,778
Other financial assets	25,867	14,311	10,103
Other current assets	78,435	80,643	74,970
Subtotal	1,966,059	1,913,385	1,914,262
Non-current assets held for sale	1,788	5,023	1,038
Total current assets	1,967,847	1,918,408	1,915,300
Non-current assets			
Property, plant and equipment	1,515,042	1,555,170	1,471,491
Right-of-use assets	322,670	298,569	296,153
Goodwill	41,382	98,346	96,388
Intangible assets	49,710	113,664	113,208
Investments accounted for using equity method	48,014	47,071	23,015
Other financial assets	217,306	140,462	126,668
Deferred tax assets	57,379	60,711	62,319
Other non-current assets	33,327	44,616	42,414
Total non-current assets	2,284,830	2,358,608	2,231,655
Total assets	4,252,677	4,277,016	4,146,955

	IFRS transition date (January 1, 2019)	As of December 31, 2019	As of June 30, 2020
	Millions of yen	Millions of yen	Millions of yen
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	497,173	453,069	303,592
Bonds and borrowings	191,556	135,442	373,806
Lease liabilities	52,097	52,827	52,018
Income taxes payable	35,404	51,506	33,160
Other financial liabilities	24,996	27,628	26,743
Provisions	33,080	34,931	35,926
Other current liabilities	123,190	138,980	131,153
Subtotal	957,495	894,383	956,398
Liabilities directly associated with non-current assets held for sale	—	953	11
Total current liabilities	957,495	895,336	956,409
Non-current liabilities			
Bonds and borrowings	209,977	405,514	410,429
Lease liabilities	271,179	250,685	249,273
Other financial liabilities	11,824	12,937	8,799
Net defined benefit liability	207,928	211,619	209,719
Provisions	24,212	23,348	20,380
Deferred tax liabilities	46,613	44,243	30,633
Other non-current liabilities	29,077	30,856	31,863
Total non-current liabilities	800,810	979,203	961,096
Total liabilities	1,758,306	1,874,539	1,917,505
Equity			
Common stock	126,354	126,354	126,354
Capital surplus	121,998	121,998	122,030
Treasury stock	(32,648)	(232,330)	(38,724)
Other components of equity	118,815	42,661	(36,904)
Retained earnings	2,105,280	2,290,696	2,010,638
Total equity attributable to owners of parent	2,439,799	2,349,378	2,183,395
Non-controlling interests	54,572	53,099	46,055
Total equity	2,494,371	2,402,477	2,229,450
Total liabilities and equity	4,252,677	4,277,016	4,146,955

(2) Condensed Quarterly Consolidated Statement of Profit or Loss

(Six months ended June 30, 2020)

	Six months ended June 30, 2019	Six months ended June 30, 2020
	Millions of yen	Millions of yen
Revenue	1,739,926	1,355,470
Cost of sales	1,092,271	882,259
Gross profit	647,655	473,211
Selling, general and administrative expenses	502,725	434,701
Other income	10,336	2,886
Other expenses	6,814	21,634
Operating profit	148,451	19,762
Finance income	8,473	4,114
Finance costs	16,361	12,966
Impairment loss related to shares using equity method	—	18,442
Share of profit (loss) of investments accounted for using equity method	(2,948)	(3,620)
Profit (loss) before tax	137,615	(11,152)
Income tax expense	35,088	9,842
Profit (loss)	102,527	(20,994)
Profit (loss) attributable to		
Owners of parent	98,703	(22,044)
Non-controlling interests	3,824	1,050
Profit (loss)	102,527	(20,994)
Earnings (loss) per share		
Basic earnings (loss) per share (yen)	134.03	(31.31)
Diluted earnings (loss) per share (yen)	133.81	(31.31)

(3) Condensed Quarterly Consolidated Statement of Comprehensive Income

(Six months ended June 30, 2020)

	Six months ended June 30, 2019	Six months ended June 30, 2020
	Millions of yen	Millions of yen
Profit (loss)	102,527	(20,994)
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Net change in fair value of financial assets measured through other comprehensive income	(356)	(8,868)
Remeasurements of defined benefit plans	(445)	(8,509)
Share of other comprehensive income of investments accounted for using equity method	-	(5)
Total of items that will not be reclassified to profit or loss	(800)	(17,382)
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(34,495)	(73,475)
Effective portion of change in fair value of cash flow hedges	407	452
Share of other comprehensive income of investments accounted for using equity method	(977)	(872)
Total of items that may be reclassified to profit or loss	(35,065)	(73,894)
Other comprehensive income, net of tax	(35,865)	(91,276)
Comprehensive income	66,662	(112,269)
Comprehensive income attributable to		
Owners of parent	62,144	(109,689)
Non-controlling interests	4,519	(2,580)
Comprehensive income	66,662	(112,269)

(4) Condensed Quarterly Consolidated Statement of Changes in Equity

Six months ended June 30, 2019

	Equity attributable to owners of parent							
	Common stock	Capital surplus	Treasury stock	Stock acquisition rights	Other components of equity			Net change in fair value of financial assets measured through other comprehensive income
					Exchange differences on transition of foreign operations	Effective portion of change in fair value of cash flow hedges		
Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	
Balance at January 1, 2019	126,354	121,998	(32,648)	3,452	–	1,742	113,620	
Profit (loss)	–	–	–	–	–	–	–	
Other comprehensive income	–	–	–	–	(35,785)	199	(356)	
Total comprehensive income	–	–	–	–	(35,785)	199	(356)	
Purchase of treasury stock	–	–	(137,510)	–	–	–	–	
Disposal of treasury stock	–	–	241	(150)	–	–	–	
Dividends	–	–	–	–	–	–	–	
Transfer from other components of equity to retained earnings	–	–	–	–	–	–	(12,618)	
Other changes	–	–	–	–	–	–	–	
Total transactions with owners	–	–	(137,269)	(150)	–	–	(12,618)	
Balance at June 30, 2019	126,354	121,998	(169,918)	3,302	(35,785)	1,941	100,647	

	Equity attributable to owners of parent					
	Other components of equity		Retained earnings	Total	Non-controlling interests	Total
	Remeasurements of defined benefit plans	Total				
Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	
Balance at January 1, 2019	–	118,815	2,105,280	2,439,799	54,572	2,494,371
Profit (loss)	–	–	98,703	98,703	3,824	102,527
Other comprehensive income	(618)	(36,560)	–	(36,560)	695	(35,865)
Total comprehensive income	(618)	(36,560)	98,703	62,144	4,519	66,662
Purchase of treasury stock	–	–	–	(137,510)	–	(137,510)
Disposal of treasury stock	–	(150)	(91)	(0)	–	(0)
Dividends	–	–	(60,145)	(60,145)	(5,608)	(65,753)
Transfer from other components of equity to retained earnings	618	(11,999)	11,999	–	–	–
Other changes	–	–	–	–	(162)	(162)
Total transactions with owners	618	(12,149)	(48,236)	(197,655)	(5,769)	(203,425)
Balance at June 30, 2019	–	70,106	2,155,748	2,304,287	53,322	2,357,609

Six months ended June 30, 2020

	Equity attributable to owners of parent						
	Other components of equity						Net change in fair value of financial assets measured through other comprehensive income
	Common stock	Capital surplus	Treasury stock	Stock acquisition rights	Exchange differences on transition of foreign operations	Effective portion of change in fair value of cash flow hedges	
Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	
Balance at January 1, 2020	126,354	121,998	(232,330)	3,275	(18,968)	(325)	58,678
Profit (loss)	–	–	–	–	–	–	–
Other comprehensive income	–	–	–	–	(72,125)	657	(8,873)
Total comprehensive income	–	–	–	–	(72,125)	657	(8,873)
Purchase of treasury stock	–	–	(2)	–	–	–	–
Disposal of treasury stock	–	–	193,608	(119)	–	–	–
Dividends	–	–	–	–	–	–	–
Changes in ownership interests of owners in subsidiaries under control	–	32	–	–	–	–	–
Transfer from other components of equity to retained earnings	–	–	–	–	–	–	896
Other changes	–	–	–	–	–	–	–
Total transactions with owners, etc.	–	32	193,606	(119)	–	–	896
Balance at June 30, 2020	126,354	122,030	(38,724)	3,157	(91,094)	332	50,701

	Equity attributable to owners of parent					
	Other components of equity		Retained earnings	Total	Non-controlling interests	Total
	Remeasurements of defined benefit plans	Total				
Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	
Balance at January 1, 2020	–	42,661	2,290,696	2,349,378	53,099	2,402,477
Profit (loss)	–	–	(22,044)	(22,044)	1,050	(20,994)
Other comprehensive income	(7,304)	(87,646)	–	(87,646)	(3,630)	(91,276)
Total comprehensive income	(7,304)	(87,646)	(22,044)	(109,689)	(2,580)	(112,269)
Purchase of treasury stock	–	–	–	(2)	–	(2)
Disposal of treasury stock	–	(119)	(193,489)	0	–	0
Dividends	–	–	(56,325)	(56,325)	(5,447)	(61,772)
Changes in ownership interests of owners in subsidiaries under control	–	–	–	32	1,039	1,071
Transfer from other components of equity to retained earnings	7,304	8,200	(8,200)	–	–	–
Other changes	–	–	–	–	(56)	(56)
Total transactions with owners, etc.	7,304	8,081	(258,014)	(56,294)	(4,465)	(60,758)
Balance at June 30, 2020	–	(36,904)	2,010,638	2,183,395	46,055	2,229,450

(5) Condensed Quarterly Consolidated Statement of Cash Flows

	Six months ended June 30, 2019	Six months ended June 30, 2020
	Millions of yen	Millions of yen
Cash flows from operating activities		
Profit (loss) before tax	137,615	(11,152)
Depreciation and amortization	134,142	133,118
Impairment losses	349	11,890
Increase (decrease) in accounts payable - bonuses	(6,537)	(8,072)
Increase (decrease) in retirement benefit liability	2,472	(9,723)
Interest and dividend income	(7,299)	(3,999)
Interest expenses	8,220	7,452
Impairment loss related to shares using equity method	-	18,442
Share of loss (profit) of investments accounted for using equity method	2,948	3,620
Loss (gain) on sale of fixed assets	(1,875)	(496)
Business and plant restructuring expenses	2,746	4,726
Loss on retirement of fixed assets	1,612	977
Decrease (increase) in trade and other receivables	5,481	126,506
Decrease (increase) in inventories	(21,446)	26,966
Increase (decrease) in trade and other payables	(20,657)	(103,574)
Increase (decrease) in accrued consumption taxes	(2,153)	10,056
Other	19,653	(22,789)
Subtotal	255,271	183,949
Interest and dividends received	7,137	4,047
Interest paid	(7,664)	(7,789)
Income taxes paid	(35,742)	(35,031)
Net cash provided by (used in) operating activities	219,002	145,177
Cash flows from investing activities		
Payments for purchase of property, plant and equipment	(127,952)	(102,528)
Proceeds from sale of property, plant and equipment	5,757	5,657
Payments for purchase of intangible assets	(5,145)	(8,233)
Payments of long-term loans receivable	(1,594)	(4,138)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(109,206)	(1,834)
Other	20,080	6,944
Net cash provided by (used in) investing activities	(218,059)	(104,131)

	Six months ended June 30, 2019	Six months ended June 30, 2020
	Millions of yen	Millions of yen
Cash flows from financing activities		
Proceeds from short-term debt	53,580	291,794
Repayments of short-term debt	(13,654)	(152,534)
Proceeds from long-term debt	1,711	114,502
Repayments of long-term debt	(12,800)	(210)
Proceeds from issuance of bonds	200,000	-
Repayments of lease liabilities	(27,198)	(27,987)
Purchase of treasury stock	(137,510)	(2)
Dividends paid (owners of parent)	(60,132)	(56,308)
Dividends paid (non-controlling interests)	(5,716)	(5,374)
Other	(1,832)	(143)
Net cash provided by (used in) financing activities	(3,551)	163,737
Effect of exchange rate changes on cash and cash equivalents	(3,246)	(9,014)
Net increase (decrease) in cash and cash equivalents	(5,854)	195,769
Cash and cash equivalents at beginning of period	433,916	432,924
Cash and cash equivalents at end of period	428,062	628,694

(6) Notes to the Condensed Quarterly Consolidated Financial Statements**(Notes regarding going concern assumption)**

Not applicable

(Reconciliation from adjusted operating profit to profit before tax)

(Millions of yen)

	Six months ended June 30, 2019	Six months ended June 30, 2020
Adjusted operating profit (Note 1)	152,124	48,266
Adjusted items (income) (Note 2)	141	31
Adjusted items (expenses) (Note 3)	3,814	28,535
Operating profit	148,451	19,762
Finance income	8,473	4,114
Finance costs	16,361	12,966
Impairment loss related to shares using equity method	—	18,442
Share of profit (loss) of investments accounted for using equity method	(2,948)	(3,620)
Profit (loss) before tax	137,615	(11,152)

(Note 1) For adjusted operating profit, adjusted items (income and expenses) are excluded from operating profit.

(Note 2) The major breakdown of adjusted items (income) is as follows:

(Millions of yen)

	Six months ended June 30, 2019	Six months ended June 30, 2020
Insurance claim income	34	4
Business and plant restructuring income	107	27
Adjusted items (income)	141	31

(Note 3) The major breakdown of adjusted items (expenses) is as follows:

(Millions of yen)

	Six months ended June 30, 2019	Six months ended June 30, 2020
Impairment losses	349	(Note 4) 11,890
Cost of sales (loss on disaster)	—	(Note 5) 9,675
Other expenses (loss on disaster)	720	(Note 6) 2,244
Business and plant restructuring expenses	(Note 7) 2,746	(Note 8) 4,726
Adjusted items (expenses)	3,814	28,535

(Note 4) The major breakdown of impairment losses is impairment on property, plant and equipment of ¥10,539 million (of which ¥450 million was recorded for business and plant restructuring expenses). Details are presented below in "Impairment of non-financial assets" under Notes to the Condensed Quarterly Consolidated Financial Statements.

(Note 5) This was primarily the recording of fixed costs, etc. arising from the period when operations were temporarily suspended at plants, etc. due to official requests and declarations by the national and local governments to prevent the spread of COVID-19.

(Note 6) This was primarily the recording of expenses, etc. recorded as the direct result of the preparation for and cancellation of events that were cancelled due to official requests and declarations by the national and local governments to prevent the spread of COVID-19. Note that the major breakdown of "other expenses" is presented below in "Other income and other expenses" under Notes to the Condensed Quarterly Consolidated Financial Statements.

(Note 7) This was primarily the recording of expenses relating to the sale of an overseas raw materials plant.

(Note 8) This was primarily the recording of expenses relating to the transfer of the unit bath business.

(Impairment of non-financial assets)

(Impairment of property, plant and equipment)

Impairment loss on property, plant and equipment recognized in the six months ended June 30, 2020 of ¥10,539 million is mainly the result of the carrying amount of assets related to property, plant and equipment in the “Europe, Russia, Middle East, India, and Africa” segment (assets for business use in Russia) being reduced by ¥9,840 million to the recoverable amount because the intended revenue is no longer expected as a result of changes in the business environment, such as the impacts of COVID-19. The recoverable amount of these assets was measured by value in use, which was calculated by discounting future cash flows at a discount rate of 10.3%. In addition, this impairment loss was recorded in “other expenses” in the condensed quarterly consolidated statement of profit or loss.

(Impairment of investments accounted for using equity method)

Impairment loss on investments accounted for using equity method recognized in the six months ended June 30, 2020 of ¥18,442 million is mainly the result of the carrying amount of assets related to investments in TIREHUB, LLC, which is a jointly controlled entity in the “Americas” segment being reduced by ¥17,286 million to the recoverable amount because the intended revenue is no longer expected as a result of changes in the business environment, such as the impacts of COVID-19. The recoverable amount of these assets was measured by value in use, which was calculated by discounting future cash flows at a discount rate of 11.5%. In addition, this impairment loss was recorded in “impairment loss related to shares using equity method” in the condensed quarterly consolidated statement of profit or loss.

(Selling, general and administrative expenses)

The breakdown of "Selling, general and administrative expenses" is as follows:

(Millions of yen)

	Six months ended June 30, 2019	Six months ended June 30, 2020
Sales fare	91,529	74,607
Advertising and sales promotion expenses	59,356	46,937
Employee benefit expenses	139,440	125,351
Depreciation and amortization	43,011	44,432
Research and development expenses (Note)	52,820	48,676
Other	116,570	94,699
Total	502,725	434,701

(Note) All research and development expenses recognized as expenses are included in "Selling, general and administrative expenses."

(Other income and other expenses)

The breakdown of "Other income" and "Other expenses" is as follows:

(1) Other income

(Millions of yen)

	Six months ended June 30, 2019	Six months ended June 30, 2020
Gain on sale of fixed assets	1,875	496
Loss on tax purpose reduction entry of fixed assets, grant and subsidies	443	442
Settlement package and compensation	5,581	152
Other	2,436	1,797
Total	10,336	2,886

(2) Other expenses

(Millions of yen)

	Six months ended June 30, 2019	Six months ended June 30, 2020
Impairment losses (Note 1)	349	11,890
Business and plant restructuring expenses (Note 2)	2,746	4,726
Loss on disaster (Note 2)	720	2,244
Loss on retirement of fixed assets	1,612	977
Removal and demolition expenses	788	640
Other	601	1,157
Total	6,814	21,634

(Note 1) The major breakdown of "Impairment losses" is presented in "Impairment of non-financial assets."

(Note 2) The major breakdown of "Business and plant restructuring expenses" and "Loss on disaster" is presented in "Reconciliation from adjusted operating profit to profit before tax" under Notes to the Condensed Quarterly Consolidated Financial Statements.

(Finance income and finance costs)

The breakdown of “Finance income” and “Finance costs” is as follows:

(1) Finance income

(Millions of yen)

	Six months ended June 30, 2019	Six months ended June 30, 2020
Interest income (Note)	2,897	2,374
Dividend income (Note)	4,402	1,625
Gain on valuation of derivatives	1,174	–
Other	–	115
Total	8,473	4,114

(2) Finance costs

(Millions of yen)

	Six months ended June 30, 2019	Six months ended June 30, 2020
Interest expenses (Note)	8,220	7,452
Net interest of defined benefit plans	2,700	1,976
Loss on valuation of derivatives	–	1,847
Foreign exchange loss	3,533	17
Other	1,908	1,675
Total	16,361	12,966

(Note) “Interest income” and “Interest expenses” are in relation to financial assets and financial liabilities measured at amortized cost. In addition, “Dividend income” is in relation to financial assets measured at fair value through other comprehensive income.

(Subsequent events)

Not applicable

(First-time adoption of IFRS)

The Group prepared its condensed quarterly consolidated financial statements in accordance with IFRS from the first quarter of the fiscal year ending December 31, 2020. The most recent consolidated financial statements prepared in accordance with Japanese GAAP are those for the fiscal year ended December 31, 2019, and the date of transition to IFRS (hereinafter the “transition date”) is January 1, 2019.

(1) Exemption in IFRS 1

IFRS 1 requires, as a general rule, a company adopting IFRS for the first time to apply the provisions required under IFRS retrospectively. However, IFRS 1 “First-time Adoption of International Financial Reporting Standards” (hereinafter “IFRS 1”) allows exemptions from retrospective application of some IFRS requirements on first-time adoption of IFRS. The Group elected to apply the following exemptions for the transition from Japanese GAAP to IFRS:

1) Business combinations

The Group elected not to apply IFRS 3 “Business Combinations” retrospectively to business combinations that occurred before the transition date. Consequently, the amount of goodwill arising from business combinations before the transition date is based on the carrying amount at the transition date under Japanese GAAP.

Further, the Group performed an impairment test on goodwill at the transition date regardless of whether there was any indication that the goodwill may be impaired.

2) Exchange differences on translation of foreign operations

The Group elected to deem all cumulative exchange differences on translation of foreign operations as zero at the transition date.

3) Designation of financial assets recognized prior to the transition date

The Group assessed the classification of financial assets under IFRS 9 “Financial Instruments” (hereinafter “IFRS 9”) on the basis of facts and circumstances existing at the transition date and designated some equity financial assets as financial assets measured through other comprehensive income.

4) Leases

The Group assessed whether a contract existing at the transition date contains a lease on the basis of facts and circumstances existing at the transition date. The Group measured a lease liability at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate at the transition date. In addition, the Group measures, on a lease-by-lease basis, a right-of-use asset at either: (i) its carrying amount as if IFRS 16 “Leases” (hereinafter “IFRS 16”) had been applied since the commencement date of lease, but discounted using the lessee’s incremental borrowing rate at the transition date; or (ii) an amount equal to the lease liability. Further, the Group expensed the lease payments associated with leases for which the lease term ends within 12 months of the transition date and leases for which the underlying asset is of low value.

(2) Mandatory exception under IFRS 1

IFRS 1 prohibits retrospective application of IFRS with respect to “estimates,” “derecognition of financial assets and financial liabilities,” “hedge accounting,” “non-controlling interests,” “classification and measurement of financial instruments,” etc. Thus, the Group applied IFRS to these items from the transition date and onwards.

(3) Reconciliations

The reconciliations required to be disclosed at the first-time adoption of IFRS are as follows.

In the reconciliations below, "Reclassification" includes items that do not affect retained earnings and comprehensive income, while "Differences in recognition and measurement" include items that affect retained earnings and comprehensive income.

Reconciliations of equity as of January 1, 2019 (transition date)

(Millions of yen)

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRSs	Notes	Line items under IFRSs
Assets						Assets
Current assets						Current assets
Cash and cash equivalents	440,378	(6,462)	–	433,916		Cash and cash equivalents
Notes and accounts receivable	603,119	19,091	159,705	781,916	(1) (2)	Trade and other receivables
Finished products	406,964	204,240	34,720	645,924	(1) (3)	Inventories
Work in process	37,904	(37,904)	–	–	(1)	
Raw materials and supplies	171,720	(171,720)	–	–	(1)	
Marketable securities	153,853	15,528	(143,514)	25,867	(2)	Other financial assets
Other current assets	123,188	(41,916)	(2,838)	78,435	(1)	Other current assets
Allowance for doubtful accounts	(21,729)	21,729	–	–		
Total current assets	1,915,400	2,586	48,073	1,966,059		Subtotal
	–	1,788	–	1,788		Non-current assets held for sale
Total current assets	1,915,400	4,374	48,073	1,967,847		Total current assets
Fixed assets						Non-current assets
Property, plant and equipment	1,524,681	(86,526)	76,886	1,515,042	(1) (4)	Property, plant and equipment
	–	80,087	242,583	322,670	(1) (5)	Right-of-use assets
Intangible assets						Goodwill
Goodwill	41,381	–	–	41,382		Intangible assets
Other intangible fixed assets	48,987	4,137	(3,414)	49,710		Investments accounted for using equity method
	–	47,839	175	48,014	(1)	
Investments and other assets						Other financial assets
Investments in securities	219,970	(7,668)	5,004	217,306	(1)	
Long-term loans receivable	11,465	(11,465)	–	–		
Deferred tax assets	65,698	–	(8,319)	57,379	(6)	Deferred tax assets
Net defined benefit asset	371	(371)	–	–		
Other assets	65,376	(28,859)	(3,190)	33,327		Other non-current assets
Allowance for doubtful accounts	(1,524)	1,524	–	–		
Total fixed assets	1,976,407	(1,302)	309,724	2,284,830		Total non-current assets
Total assets	3,891,808	3,072	357,797	4,252,677		Total assets

(Millions of yen)

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRSs	Notes	Line items under IFRSs
Liabilities						Liabilities
Current liabilities						Current liabilities
Notes and accounts payable	233,970	264,236	(1,033)	497,173	(1)	Trade and other payables
Short-term debt	100,627	90,955	(27)	191,556	(1)	Bonds and borrowings
Commercial paper	20,955	(20,955)	–	–	(1)	
Current portion of bonds	70,000	(70,000)	–	–	(1)	
Lease obligations	11,495	–	40,601	52,097	(5)	Lease liabilities
Income taxes payable	15,073	11,314	9,016	35,404		Income taxes payable
	–	24,996	–	24,996		Other financial liabilities
Provision for sales returns	3,531	32,910	(3,362)	33,080		Provisions
Provision for reorganization of R&D and manufacturing base	4,333	(4,333)	–	–		
Accounts payable	186,677	(186,677)	–	–	(1)	
Accrued expenses	190,754	(190,754)	–	–	(1)	
Other current liabilities	61,215	54,455	7,519	123,190	(1)	Other current liabilities
Total current liabilities	898,633	6,147	52,715	957,495		Subtotal
	–	–	–	–		Liabilities directly associated with non-current assets held for sale
Total current liabilities	898,633	6,147	52,715	957,495		Total current liabilities
Long-term liabilities						Non-current liabilities
Bonds	150,000	(150,000)	–	–	(1)	
Long-term debt	38,041	150,000	21,936	209,977	(1) (2)	Bonds and borrowings
Lease obligations	68,975	–	202,203	271,179	(5)	Lease liabilities
	–	11,824	–	11,824		Other financial liabilities
Net defined benefit liability	196,005	7,862	4,061	207,928		Net defined benefit liability
Provision for product warranties	2,999	(2,999)	–	–		
Provision for environmental remediation	1,511	(1,511)	–	–		
Provision for reorganization of R&D and manufacturing base	–	23,072	1,141	24,212		Provisions
Deferred tax liabilities	27,723	–	18,890	46,613	(6)	Deferred tax liabilities
Other long-term liabilities	73,524	(41,321)	(3,126)	29,077		Other non-current liabilities
Total long-term liabilities	558,781	(3,075)	245,104	800,810		Total non-current liabilities
Total liabilities	1,457,414	3,072	297,819	1,758,306		Total liabilities

(Millions of yen)

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRSs	Notes	Line items under IFRSs
Equity						Equity
Common stock	126,354	–	–	126,354		Common stock
Capital surplus	121,997	–	–	121,998		Capital surplus
Treasury stock	(32,648)	–	–	(32,648)		Treasury stock
Net unrealized gain (loss) on available-for-sale securities	108,888	(305,364)	315,291	118,815	(7)	Other components of equity
Deferred gain (loss) on derivative instruments	1,730	(1,730)	–	–		
Foreign currency translation adjustments	(174,850)	174,850	–	–		
Remeasurements of defined benefit plans	(135,696)	135,696	–	–		
Stock acquisition rights	3,452	(3,452)	–	–		
Retained earnings	2,360,967	–	(255,687)	2,105,280	(7) (8)	Retained earnings
				2,439,799		Total equity attributable to owners of parent
Non-controlling interests	54,198	–	374	54,572		Non-controlling interests
Total equity	2,434,393	–	59,978	2,494,371		Total equity
Total liabilities and equity	3,891,808	3,072	357,797	4,252,677		Total liabilities and equity

Reconciliations of equity as of the end of the second quarter of the previous fiscal year (June 30, 2019)

(Millions of yen)

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRSs	Notes	Line items under IFRSs
Assets						Assets
Current assets						Current assets
Cash and cash equivalents	434,793	(6,732)	–	428,062		Cash and cash equivalents
Notes and accounts receivable	580,694	23,021	160,043	763,759	(1) (2)	Trade and other receivables
Finished products	425,512	204,506	25,229	655,247	(1) (3)	Inventories
Work in process	39,680	(39,680)	–	–	(1)	
Raw materials and supplies	163,228	(163,228)	–	–	(1)	
Marketable securities	144,438	13,923	(144,162)	14,200	(2)	Other financial assets
Other current assets	134,675	(51,553)	(5,639)	77,483	(1)	Other current assets
Allowance for doubtful accounts	(21,723)	21,723	–	–		
Total current assets	1,901,299	1,980	35,472	1,938,751		Subtotal
	–	14,565	–	14,565		Non-current assets held for sale
Total current assets	1,901,299	16,545	35,472	1,953,317		Total current assets
Fixed assets						Non-current assets
Property, plant and equipment	1,496,889	(80,729)	73,243	1,489,404	(1) (4)	Property, plant and equipment
	–	71,775	230,153	301,928	(1) (5)	Right-of-use assets
Intangible assets						
Goodwill	92,345	–	3,032	95,377		Goodwill
Other intangible fixed assets	113,269	3,960	(3,286)	113,943		Intangible assets
	–	43,750	131	43,881	(1)	Investments accounted for using equity method
Investments and other assets						
Investments in securities	202,220	(12,556)	4,918	194,582	(1)	Other financial assets
Deferred tax assets	–	70,997	(7,270)	63,728	(6)	Deferred tax assets
Other assets	151,579	(112,223)	(3,291)	36,065		Other non-current assets
Allowance for doubtful accounts	(1,058)	1,058	–	–		
Total fixed assets	2,055,245	(13,967)	297,630	2,338,907		Total non-current assets
Total assets	3,956,544	2,577	333,102	4,292,223		Total assets

(Millions of yen)

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRSs	Notes	Line items under IFRSs
Liabilities						Liabilities
Current liabilities						Current liabilities
Notes and accounts payable	221,215	223,517	(4)	444,728	(1)	Trade and other payables
Short-term debt	78,676	138,294	–	216,970	(1)	Bonds and borrowings
Commercial paper	68,294	(68,294)	–	–	(1)	
Current portion of bonds	70,000	(70,000)	–	–	(1)	
Lease obligations	11,115	–	42,197	53,313	(5)	Lease liabilities
Income taxes payable	26,663	7,703	9,496	43,862		Income taxes payable
	–	24,683	–	24,683		Other financial liabilities
Provision for recall	5,310	31,394	(108)	36,597		Provisions
Accounts payable	141,478	(141,478)	–	–	(1)	
Other current liabilities	268,978	(142,862)	3,405	129,522	(1)	Other current liabilities
Total current liabilities	891,731	2,957	54,987	949,676		Subtotal
	–	–	–	–		Liabilities directly associated with non-current assets held for sale
Total current liabilities	891,731	2,957	54,987	949,676		Total current liabilities
Long-term liabilities						Non-current liabilities
Bonds	350,000	(350,000)	–	–	(1)	
Long-term debt	37,061	350,000	20,826	407,888	(1) (2)	Bonds and borrowings
Lease obligations	64,579	–	187,853	252,432	(5)	Lease liabilities
	–	9,539	–	9,539		Other financial liabilities
Net defined benefit liability	189,242	7,646	9,826	206,715		Net defined benefit liability
	–	21,075	1,347	22,422		Provisions
Deferred tax liabilities	–	39,372	14,053	53,425	(6)	Deferred tax liabilities
Other long-term liabilities	113,102	(78,012)	(2,572)	32,518		Other non-current liabilities
Total long-term liabilities	753,986	(380)	231,333	984,939		Total non-current liabilities
Total liabilities	1,645,717	2,577	286,320	1,934,614		Total liabilities

(Millions of yen)

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRSs	Notes	Line items under IFRSs
Equity						Equity
Common stock	126,354	–	–	126,354		Common stock
Capital surplus	121,997	–	–	121,998		Capital surplus
Treasury stock	(169,917)	–	–	(169,918)		Treasury stock
Net unrealized gain (loss) on available-for-sale securities	96,736	(336,227)	309,596	70,106	(7)	Other components of equity
Deferred gain (loss) on derivative instruments	1,946	(1,946)	–	–		
Foreign currency translation adjustments	(214,652)	214,652	–	–		
Remeasurements of defined benefit plans	(126,823)	126,823	–	–		
Stock acquisition rights	3,302	(3,302)	–	–		
Retained earnings	2,419,084	–	(263,336)	2,155,748	(7) (8)	Retained earnings
				2,304,287		Total equity attributable to owners of parent
Non-controlling interests	52,800	–	521	53,322		Non-controlling interests
Total equity	2,310,827	–	46,781	2,357,609		Total equity
Total liabilities and equity	3,956,544	2,577	333,102	4,292,223		Total liabilities and equity

Reconciliations of equity as of the end of the previous fiscal year (December 31, 2019)

(Millions of yen)

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRSs	Notes	Line items under IFRSs
Assets						Assets
Current assets						Current assets
Cash and cash equivalents	441,255	(8,331)	–	432,924		Cash and cash equivalents
Notes and accounts receivable	583,223	22,608	149,513	755,344	(1) (2)	Trade and other receivables
Finished products	406,119	190,999	33,044	630,162	(1) (3)	Inventories
Work in process	39,360	(39,360)	–	–	(1)	
Raw materials and supplies	150,943	(150,943)	–	–	(1)	
Marketable securities	136,044	14,107	(135,841)	14,311	(2)	Other financial assets
Other current assets	135,496	(51,685)	(3,168)	80,643	(1)	Other current assets
Allowance for doubtful accounts	(21,377)	21,377	–	–		
Total current assets	1,871,066	(1,228)	43,547	1,913,385		Subtotal
	–	5,023	–	5,023		Non-current assets held for sale
Total current assets	1,871,066	3,795	43,547	1,918,408		Total current assets
Fixed assets						Non-current assets
Property, plant and equipment	1,562,160	(79,452)	72,461	1,555,170	(1) (4)	Property, plant and equipment
	–	74,035	224,535	298,569	(1) (5)	Right-of-use assets
Intangible assets						
Goodwill	91,410	–	6,935	98,346		Goodwill
Other intangible fixed assets	113,639	3,219	(3,195)	113,664		Intangible assets
	–	46,873	198	47,071	(1)	Investments accounted for using equity method
Investments and other assets						
Investments in securities	141,820	(6,065)	4,706	140,462	(1)	Other financial assets
Long-term loans receivable	7,980	(7,980)	–	–		
Deferred tax assets	77,081	–	(16,371)	60,711	(6)	Deferred tax assets
Net defined benefit asset	7,797	(7,797)	–	–		
Other assets	74,686	(25,980)	(4,090)	44,616		Other non-current assets
Allowance for doubtful accounts	(1,138)	1,138	–	–		
Total fixed assets	2,075,438	(2,010)	285,180	2,358,608		Total non-current assets
Total assets	3,946,505	1,785	328,727	4,277,016		Total assets

(Millions of yen)

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRSs	Notes	Line items under IFRSs
Liabilities						Liabilities
Current liabilities						Current liabilities
Notes and accounts payable	202,048	250,207	814	453,069	(1)	Trade and other payables
Short-term debt	76,745	58,696	–	135,442	(1)	Bonds and borrowings
Commercial paper	58,696	(58,696)	–	–	(1)	
Lease obligations	12,094	–	40,733	52,827	(5)	Lease liabilities
Income taxes payable	40,497	4,209	6,800	51,506		Income taxes payable
	–	27,628	–	27,628		Other financial liabilities
Provision for sales returns	3,337	33,789	(2,194)	34,931		Provisions
Provision for recall	4,534	(4,534)	–	–		
Accounts payable	175,562	(175,562)	–	–	(1)	
Accrued expenses	193,756	(193,756)	–	–	(1)	
Other current liabilities	71,039	60,655	7,286	138,980	(1)	Other current liabilities
Total current liabilities	838,312	2,634	53,438	894,383		Subtotal
	–	953	–	953		Liabilities directly associated with non-current assets held for sale
Total current liabilities	838,312	3,586	53,438	895,336		Total current liabilities
Long-term liabilities						Non-current liabilities
Bonds	350,000	(350,000)	–	–	(1)	
Long-term debt	34,249	350,000	21,264	405,514	(1) (2)	Bonds and borrowings
Lease obligations	65,673	–	185,011	250,685	(5)	Lease liabilities
	–	12,937	–	12,937		Other financial liabilities
Net defined benefit liability	201,412	7,001	3,206	211,619		Net defined benefit liability
Provision for product warranties	2,687	(2,687)	–	–		
Provision for environmental remediation	874	(874)	–	–		
	–	22,510	838	23,348		Provisions
Deferred tax liabilities	34,977	–	9,266	44,243	(6)	Deferred tax liabilities
Other long-term liabilities	74,026	(40,686)	(2,485)	30,856		Other non-current liabilities
Total long-term liabilities	763,902	(1,800)	217,100	979,203		Total non-current liabilities
Total liabilities	1,602,215	1,785	270,538	1,874,539		Total liabilities

(Millions of yen)

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRSs	Notes	Line items under IFRSs
Equity						Equity
Common stock	126,354	–	–	126,354		Common stock
Capital surplus	121,997	–	–	121,998		Capital surplus
Treasury stock	(232,330)	–	–	(232,330)		Treasury stock
Net unrealized gain (loss) on available-for-sale securities	55,363	(315,393)	302,691	42,661	(7)	Other components of equity
Deferred gain (loss) on derivative instruments	(342)	342	–	–		
Foreign currency translation adjustments	(189,271)	189,271	–	–		
Remeasurements of defined benefit plans	(129,054)	129,054	–	–		
Stock acquisition rights	3,275	(3,275)	–	–		
Retained earnings	2,535,720	–	(245,025)	2,290,696	(7) (8)	Retained earnings
				2,349,378		Total equity attributable to owners of parent
Non-controlling interests	52,576	–	523	53,099		Non-controlling interests
Total equity	2,344,290	–	58,188	2,402,477		Total equity
Total liabilities and equity	3,946,505	1,785	328,727	4,277,016		Total liabilities and equity

Notes on reconciliations of equity

(1) Reclassifications

The Group reclassified items between Japanese GAAP and IFRS to comply with provisions of IFRS. The major reclassifications are as follows:

- 1) Accounts receivable - other, which were included in and presented as "Other current assets" in current assets under Japanese GAAP, are reclassified and presented as "Trade and other receivables" under IFRS.
- 2) "Finished products," "Work in process," and "Raw materials and supplies," which were separately presented under Japanese GAAP, are presented in aggregate as "Inventories" under IFRS.
- 3) Right-of-use assets, which were included in and presented as "Property, plant and equipment" under Japanese GAAP, are separately presented as "Right-of-use assets" under IFRS.
- 4) Equity method investments, which were included in and presented as "Investments in securities" in Fixed assets under Japanese GAAP, are separately presented as "Investments accounted for using equity method" under IFRS.
- 5) "Notes and accounts payable," "Accounts payable," and "Accrued expenses," which were separately presented under Japanese GAAP, are presented as "Trade and other payables" and "Other current liabilities" under IFRS.
- 6) "Short-term debt," "Commercial paper," and "Current portion of bonds," which were separately presented under Japanese GAAP, are presented in aggregate as "Bonds and borrowings" in current liabilities under IFRS.
- 7) "Bonds" and "Long-term debt," which were separately presented under Japanese GAAP, are presented in aggregate as "Bonds and borrowings" in non-current liabilities under IFRS.

(2) Trade and other receivables

For liquidated receivables that were derecognized and included in and presented as "Marketable securities" in current assets under Japanese GAAP, those that do not satisfy the derecognition criteria under IFRS are included in and presented as "Trade and other receivables" in accordance with provisions of IFRS 9. In addition, liabilities associated with the proceeds from the transfer of such assets are included in and presented as "Bonds and borrowings" in non-current liabilities.

(3) Inventories

The Group changed the valuation method of "Inventories" from the last-in, first-out method to the moving average method for the Americas Operations in accordance with provisions of IAS 2 "Inventories" (hereinafter "IAS 2").

(4) Property, plant and equipment

Under Japanese GAAP, depreciation of property, plant and equipment of the Company and its domestic subsidiaries was computed by the declining-balance method, while the straight-line method was applied to property, plant and equipment of the Company's overseas subsidiaries. However, under IFRS, the straight-line method is consistently applied to property, plant and equipment of the entire Group.

(5) Right-of-use assets and lease liabilities

The Group newly recognized right-of-use assets and lease liabilities principally for buildings and land as a lessee of such leases principally in Japan and the Americas in accordance with provisions of IFRS 16.

(6) Deferred tax assets and deferred tax liabilities

The Group reconciled the amounts of deferred tax assets and deferred tax liabilities principally for the temporary differences resulting from the reconciliations from Japanese GAAP to IFRS.

(7) Other components of equity

The Group applied the exemption set forth under IFRS 1 and transferred all foreign currency translation adjustments under Japanese GAAP to retained earnings on the transition date.

Under Japanese GAAP, the Group prorated the amount of remeasurements of net defined benefit liability (asset) on a straight-line method over a certain number of years within the average remaining service period of employees when it was incurred, and expensed the prorated amount from the fiscal year following the year in which it was incurred. However, under IFRS, the Group recognized such amount in other comprehensive income when it was incurred, and immediately transferred it to retained earnings.

(8) Retained earnings

The effect of the reconciliations upon adoption of IFRS on retained earnings is as follows:

	As of January 1, 2019 (Transition date)	As of June 30, 2019	As of December 31, 2019
	Millions of yen	Millions of yen	Millions of yen
(2) Reconciliation of trade and other receivables	(5,745)	(4,945)	(7,592)
(3) Reconciliation of inventories	34,720	25,229	33,044
(4) Reconciliation of property, plant and equipment	76,886	73,243	72,461
(5) Reconciliation of right-of-use assets and lease liabilities	(221)	103	(1,209)
(7) Reconciliation of exchange differences on translation of foreign operations	(174,850)	(174,850)	(174,850)
(7) Reconciliation of remeasurements of defined benefit plans	(135,696)	(126,823)	(129,054)
Other	(23,198)	(33,449)	(11,665)
Subtotal	(228,104)	(241,492)	(218,865)
(6) Reconciliation of tax effects	(27,209)	(21,323)	(25,637)
Reconciliation of non-controlling interests	(374)	(521)	(523)
Total	(255,687)	(263,336)	(245,025)

Reconciliations of profit or loss and comprehensive income for the six months ended June 30, 2019 (January 1, 2019 - June 30, 2019)

(Millions of yen)

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRSs	Notes	Line items under IFRSs
Net sales	1,744,662	(9,770)	5,034	1,739,926		Revenue
Cost of sales	1,084,689	(10,485)	18,068	1,092,271	(2) (3)	Cost of sales
Gross profit	659,973	715	(13,034)	647,655		Gross profit
Selling, general and administrative expenses	502,411	7,116	(6,802)	502,725	(1) (3) (4)	Selling, general and administrative expenses
	–	10,505	(169)	10,336	(1)	Other income
	–	6,336	478	6,814	(1)	Other expenses
Operating income	157,562	(2,232)	(6,879)	148,451		Operating profit
Non-operating income	21,118	(21,118)	–	–	(1)	
Non-operating expenses	25,124	(25,124)	–	–	(1)	
Ordinary income	153,556	(153,556)	–	–		
Extraordinary income	12,272	(12,272)	–	–	(1)	
Extraordinary loss	5,310	(5,310)	–	–	(1)	
	–	20,257	(11,783)	8,473	(1) (5)	Finance income
	–	12,175	4,186	16,361	(1) (6)	Finance costs
	–	(2,893)	(55)	(2,948)	(1)	Share of profit (loss) of investments accounted for using equity method
Income before income taxes and non-controlling interests	160,518	–	(22,903)	137,615		Profit before tax
Income taxes	38,367	–	(3,279)	35,088	(7)	Income tax expense
Income before non-controlling interests	122,151	–	(19,624)	102,527		Profit
Profit attributable to owners of parent	118,353	–	(19,650)	98,703		Profit attributable to Owners of parent
Profit attributable to non-controlling interests	3,798	–	26	3,824		Non-controlling interests

(Millions of yen)

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRSs	Notes	Line items under IFRSs
Income before non-controlling interests	122,151	–	(19,624)	102,527		Profit
Other comprehensive income						Other comprehensive income
Net unrealized gain (loss) on available-for-sale securities	(12,152)	–	11,796	(356)	(7)	Items that will not be reclassified to profit or loss Net change in fair value of financial assets measured through other comprehensive income
Remeasurements of defined benefit plans	8,661	–	(9,106)	(445)	(7)	Remeasurements of defined benefit plans
				(800)		Total of items that will not be reclassified to profit or loss
Foreign currency translation adjustments	(38,516)	–	4,021	(34,495)		Items that may be reclassified to profit or loss Exchange differences on translation of foreign operations
Deferred gain (loss) on derivative instruments	407	–	–	407		Effective portion of change in fair value of cash flow hedges
Share of other comprehensive income in affiliates	(987)	–	10	(977)		Share of other comprehensive income of investments accounted for using equity method
				(35,065)		Total of items that may be reclassified to profit or loss
Total other comprehensive income	(42,587)	–	6,722	(35,865)		Other comprehensive income, net of tax
Comprehensive income	79,564	–	(12,902)	66,662		Comprehensive income
Comprehensive income attribute to owners of parent	75,482	–	(13,338)	62,144		Comprehensive income attributable to Owners of parent
Comprehensive income attribute to non-controlling interests	4,082	–	437	4,519		Non-controlling interests

Reconciliations of profit or loss and comprehensive income for the fiscal year ended December 31, 2019 (January 1, 2019 - December 31, 2019)

(Millions of yen)

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRSs	Notes	Line items under IFRSs
Net sales	3,525,600	(18,061)	(296)	3,507,243		Revenue
Cost of sales	2,201,684	(18,722)	(408)	2,182,554	(2) (3)	Cost of sales
Gross profit	1,323,916	660	112	1,324,689		Gross profit
Selling, general and administrative expenses	997,817	13,169	(12,626)	998,360	(1) (3) (4)	Selling, general and administrative expenses
	–	47,615	(9)	47,606	(1)	Other income
	–	23,547	1,052	24,599	(1)	Other expenses
Operating income	326,098	11,560	11,678	349,336		Operating profit
Non-operating income	28,018	(28,018)	–	–	(1)	
Non-operating expenses	37,293	(37,293)	–	–	(1)	
Ordinary income	316,823	(316,823)	–	–		
Extraordinary income	116,134	(116,134)	–	–	(1)	
Extraordinary loss	25,706	(25,706)	–	–	(1)	
	–	94,366	(76,617)	17,748	(1) (5)	Finance income
	–	21,582	6,741	28,324	(1) (6)	Finance costs
	–	(3,190)	(61)	(3,251)	(1)	Share of profit (loss) of investments accounted for using equity method
Income before income taxes and non-controlling interests	407,251	–	(71,742)	335,510		Profit before tax
Income taxes	108,303	–	(19,085)	89,219	(7)	Income tax expense
Income before non-controlling interests	298,947	–	(52,657)	246,291		Profit
Profit attributable to owners of parent	292,598	–	(52,487)	240,111		Profit attributable to Owners of parent
Profit attributable to non-controlling interests	6,349	–	(170)	6,179		Non-controlling interests

(Millions of yen)

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRSs	Notes	Line items under IFRSs
Income before non-controlling interests	298,947	–	(52,657)	246,291		Profit
Other comprehensive income						Other comprehensive income
						Items that will not be reclassified to profit or loss
Net unrealized gain (loss) on available-for-sale securities	(53,518)	–	59,639	6,121	(7)	Net change in fair value of financial assets measured through other comprehensive income
Remeasurements of defined benefit plans	6,926	–	(4,177)	2,749	(7)	Remeasurements of defined benefit plans
		–	(6)	(6)		Share of other comprehensive income of investments accounted for using equity method
				8,864		Total of items that will not be reclassified to profit or loss
						Items that may be reclassified to profit or loss
Foreign currency translation adjustments	(11,647)	–	(4,544)	(16,191)		Exchange differences on translation of foreign operations
Deferred gain (loss) on derivative instruments	(864)	–	–	(864)		Effective portion of change in fair value of cash flow hedges
Share of other comprehensive income in affiliates	(2,213)	–	108	(2,105)		Share of other comprehensive income of investments accounted for using equity method
				(19,159)		Total of items that may be reclassified to profit or loss
Total other comprehensive income	(61,317)	–	51,022	(10,295)		Other comprehensive income, net of tax
Comprehensive income	237,629	–	(1,634)	235,995		Comprehensive income
						Comprehensive income attributable to
Comprehensive income attribute to owners of parent	229,223	–	(1,706)	227,517		Owners of parent
Comprehensive income attribute to non-controlling interests	8,406	–	72	8,478		Non-controlling interests

Notes on reconciliations of profit or loss and comprehensive income

(1) Reclassifications

Items presented in “Non-operating income,” “Non-operating expenses,” “Extraordinary income,” and “Extraordinary losses” under Japanese GAAP are reclassified as follows under IFRS: Items of financial profit or loss are presented as “Finance income” or “Finance costs,” respectively, and the other items are presented as “Selling, general and administrative expenses,” “Other income,” “Other expenses,” or “Share of profit (loss) of investments accounted for using equity method.”

(2) Cost of sales

The Group reconciled “Cost of sales” since it changed the valuation method of “Inventories” from the last-in, first-out method to the moving average method for the Americas Operations in accordance with provisions of IAS 2.

(3) Cost of sales and selling, general and administrative expenses

Under Japanese GAAP, depreciation of property, plant and equipment of the Company and its domestic subsidiaries was computed by the declining-balance method, while the straight-line method was applied to property, plant and equipment of the Company’s overseas subsidiaries. However, under IFRS, the straight-line method is consistently applied to property, plant and equipment of the Group. Due to this change, the Group reconciled “Cost of sales” and “Selling, general and administrative expenses” that include depreciation.

(4) Selling, general and administrative expenses

Under Japanese GAAP, goodwill was amortized on a straight-line method over the period for which goodwill is expected to have an effect. However, under IFRS, the Group discontinued the amortization of goodwill on and after the transition date.

(5) Finance income

Under Japanese GAAP, the Group recognized gain or loss on sales of equity instruments in profit or loss. However, under IFRS, the Group recognized any change in fair value as other comprehensive income for equity instruments designated as those measured at fair value through other comprehensive income, and reconciled “Finance income” in order to transfer the change to retained earnings immediately when the equity instruments are sold.

(6) Finance costs

Under Japanese GAAP, the Group calculated the interest cost by multiplying the defined benefit obligations by the discount rate and the expected return on plan assets by multiplying the plan assets by the expected rate of return on plan assets to recognize them as retirement benefit expenses. However, under IFRS, the Group reconciled “Finance costs” as it recognized net interest by multiplying the defined benefit obligation net of plan assets by the discount rate.

(7) Income tax expense and other comprehensive income

For gain or loss on sales of equity instruments recognized in profit or loss and income taxes on such gain under Japanese GAAP, the Group reconciled “Income tax expense” and “Net change in fair value of financial assets measured through other comprehensive income” since it did not recognize gain or loss on sales of certain equity instruments designated as financial assets measured at fair value through other comprehensive income in profit or loss under IFRS.

In addition, under Japanese GAAP, the Group prorated the amount of remeasurements of net defined benefit liability (asset) on a straight-line method over a certain number of years within the average

remaining service period of employees when it was incurred, and recognized the prorated amount in profit or loss from the fiscal year following the year in which it was incurred. However, under IFRS, the Group recognized such amount in other comprehensive income when it was incurred, and reconciled “Remeasurements of defined benefit plans” in order to transfer such amount to “Retained earnings” immediately.

Reconciliations of cash flows for the six months ended June 30, 2019 (from January 1, 2019 to June 30, 2019) and the fiscal year ended December 31, 2019 (from January 1, 2019 to December 31, 2019)

The major difference between the consolidated statement of cash flows disclosed in accordance with the Japanese GAAP and the consolidated statement of cash flows disclosed under IFRS is that “Lease payments associated with operating leases” previously included in “Cash flows from operating activities” are now included in “Cash flows from financing activities” as “Repayments of lease liabilities” due to the application of IFRS 16. As a result, in the six months ended June 30, 2019, net cash provided by operating activities increased by ¥20,873 million, and net cash used in financing activities increased by ¥20,873 million. Also, in the fiscal year ended December 31, 2019, net cash provided by operating activities increased by ¥41,914 million, and net cash used in financing activities increased by ¥41,914 million.